

REVENUE

ISSUES FOR HEARING

August 2015 Consensus Revenue Estimate

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~~August 19, 2015~~Summary

- The Consensus Revenue Estimating Group (CREG), comprised of the Legislative Finance Committee, Department of Finance and Administration, Taxation and Revenue Department, and Department of Transportation, met and reached consensus on the revenue estimates presented herein this brief.
- Preliminary FY15 recurring revenue is now \$6.2 billion, \$112 million more than the February 2015 estimate. Table 1 presents a reconciliation of recurring revenues through the revenue estimating cycle.
- Attachment 1 (page 9) shows general fund revenue revisions from February 2015, adjusted for 2015 legislation, to August 2015. Compared with the February 2015 forecast, the FY16 recurring revenue estimate was revised upward by \$6.5 million to \$6.25 billion, and the FY17 revenue estimate was revised upward by \$0.5 million to \$6.53 billion.
- Attachment 2 (page 11) shows the general fund financial summary. Preliminary FY15-ending reserve balances are \$625.6 million, or 10.1 percent of recurring appropriations. Projected FY16-ending reserve balances are \$609.1 million, or 9.8 percent of recurring appropriations.
- “New Money” in FY17, defined as FY17 projected recurring revenue less FY16 recurring appropriations, is projected to be \$293 million, or 4.7 percent of FY16 appropriations.

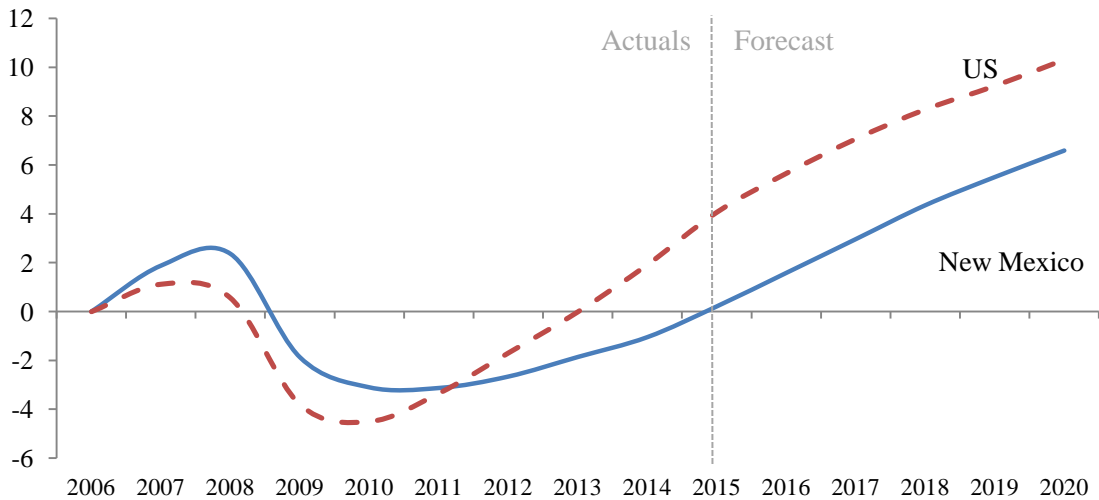
Table 1
August 2015 Consensus General Fund Recurring Revenue Outlook
(in millions of dollars)

	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
February 2015 Consensus	\$6,115	\$6,241	\$6,528	\$6,805
August 2015 Adjustments	\$112	\$7	\$0.5	\$28
August 2015 Consensus	\$6,227	\$6,248	\$6,528	\$6,833
Annual amount change	\$187	\$21	\$280	\$305
Annual percent change	3.4%	0.3%	4.4%	4.6%

The US and NM Economic Forecast. The consensus revenue estimating group uses two different forecasting services in developing the economic assumptions on which the forecast is based. The Legislative Finance Committee (LFC), Taxation and Revenue Department (TRD), and Department of Transportation (DOT) rely on New Mexico forecasts produced by UNM’s Bureau of Business and Economic Research (BBER). BBER, in turn, has relied on a national forecast produced by IHS Global Insight. The Department of Finance and Administration (DFA) utilizes Moody’s Analytics for its national and state forecasts. Selected economic indicators from these forecasts are presented in Attachment 3 (page 13).

By mid-2014, national employment levels had recovered all job losses from the recession. New Mexico, however, continues to lag the US in the post-recession recovery (see Figure 1, below). Employment in the state remains three percent below the pre-recession peak. The state of New Mexico took nine years to regain employment levels last seen in 2006—two years longer than the rest of the US.

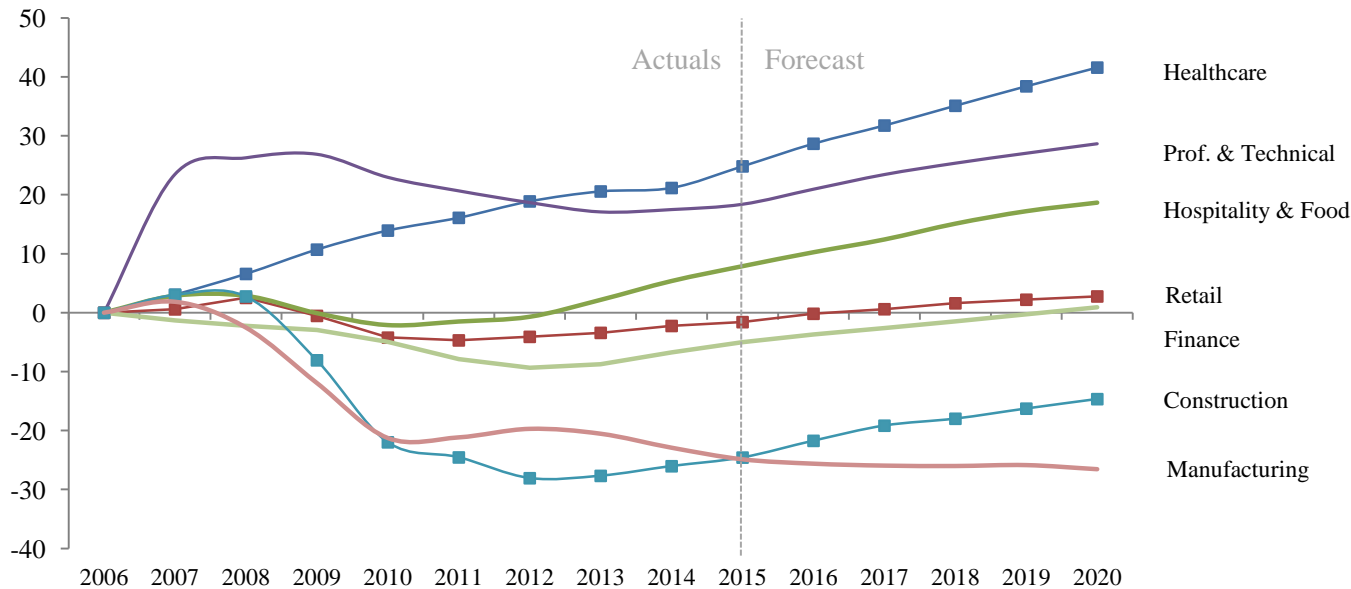
Figure 1: New Mexico vs. US Private Employment Gains (%) Since 2006



Source: BBER, IHS Global Insight

Additional data suggests that earlier evidence of NM job growth was overly optimistic, and the economy has begun contracting, notably in the manufacturing and construction sectors (see Figure 2, below). BBER notes the weak labor market contributed to a slowdown in personal income growth within New Mexico. A positive note may be attributed to the healthcare subsector. Healthcare, funded by the Medicaid expansion, grew substantially in New Mexico, and is expected to account for more than one-quarter of all new jobs created in the next five years. Reviewing Census Bureau estimates, the trend of state-to-state out migration from New Mexico has grown, with approximately 25 thousand people leaving in 2013 and 2014. This is the first net decline in New Mexico’s population in over 60 years.

Figure 2: New Mexico Employment Sector Gains (%) Since 2006



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BBER's baseline forecast predicts sustained yet unspectacular job growth in the near and mid terms, although it has revised the growth rate downward compared with last quarter. BBER expects job growth to average 1.4 percent per year during 2015 through 2017 when it will return to pre-recession levels. Further, BBER forecasts personal income growth of 4.6 percent in 2015, revised up from 4 percent during its previous forecast. Continued future growth from 2016 to 2020 is anticipated to come from higher wage & salary disbursements to private sector workers and increased transfer payments.

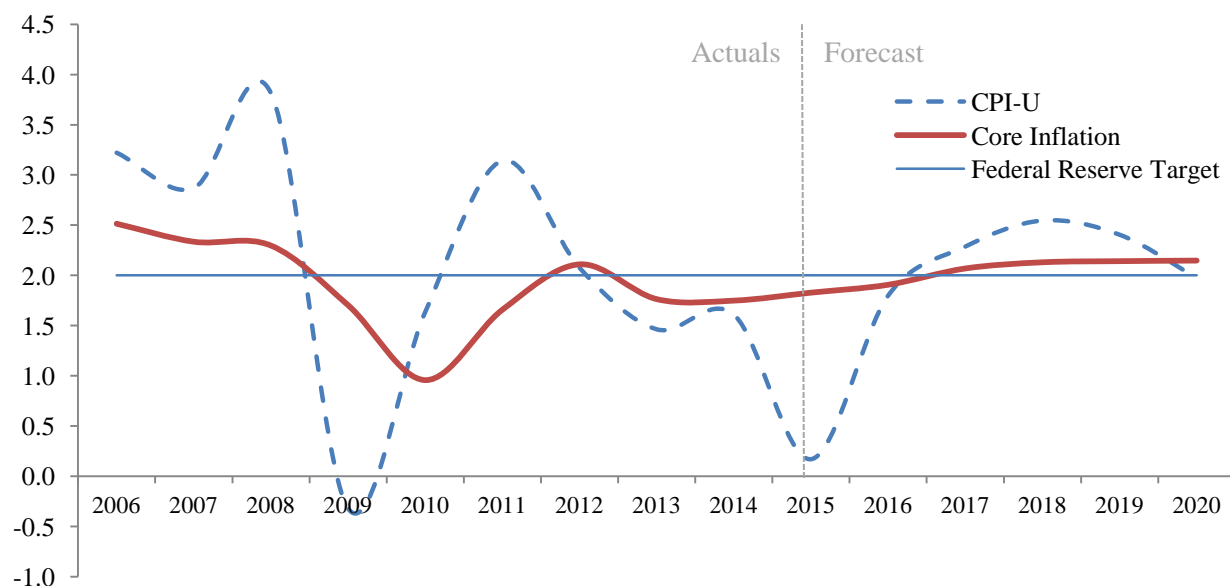
At the national level, IHS reported for the second quarter that GDP grew more slowly than originally forecasted. GDP growth of 2.8 percent was a rebound from the first quarter's 0.6 percent contraction. The US dollar's rapid appreciation during the last six months has led to a stall in manufacturing output. The currency strength has also led to net import growth outpacing exports during the second quarter, creating a small drag on GDP growth.

The national employment picture continued to improve over the last year. Employment growth in the second quarter added 242 thousand jobs per month. The seasonally adjusted June unemployment rate of 5.4 percent is down more than 1 percent from the 6.1 percent rate one year ago. During this same period, the labor force participation rate continued to fall to 62.6 percent in June; reaching the lowest level since October 1977.

IHS lowered its forecast for real GDP growth in 2015 to 2.2 percent (down from 3.1 percent in January and 2.8 percent in April). IHS forecasts growth to peak at 3.1 percent in 2016 before slowing to 2.7 percent in 2017 and averaging 2.5 percent from 2018 through 2020. IHS forecasts employment will expand by 2.1 percent in 2015, slow to 1.5 percent in 2016, and 1.3 percent in 2017. These growth rates are revised downward slightly from the previous IHS forecast, but they still contribute to a gradual reduction in the unemployment rate to 5.1 percent by 2016.

IHS notes the next major risk on the horizon is the timing and reaction to the Federal Reserve's tightening of monetary policy, which IHS expects will begin in September 2015. The Fed has stated a 2 percent inflation target as a threshold for policy action (see Figure 3, below). CPI inflation has continued to move sideways during the year as oil steadily maintains lower prices.

Figure 3: US Annual Change in Consumer Prices (%)



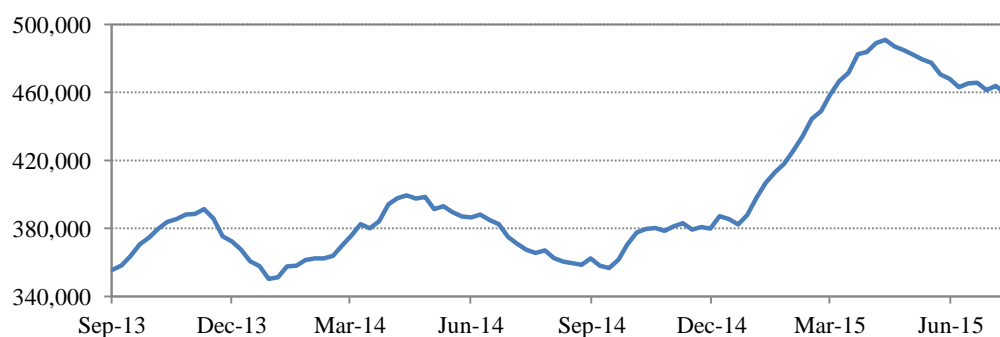
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Oil & Gas New Mexico broke its annual oil production record in July 2015 at over 130 million barrels; this record was last set in 1969. The energy markets, however, continue to experience price declines since the end of 2014. Spot prices for WTI fell from \$107/bbl in June 2014 to \$43/bbl in August 2015. CREG estimates the following prices and volumes for oil and natural gas production in FY16-FY20:

FY	2013 Actual	2014 Actual	2015 Prelim.	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Oil Price (\$ / bbl)	85.81	95.75	61.72	51.54	56.52	61.23	66.10	68.06
Oil Volume (MMbbls)	93.70	110.00	137.20	145.00	149.53	153.00	155.00	156.00
Natural Gas Price (\$ / mcf)	4.37	5.15	3.80	3.60	3.90	4.15	4.25	4.45
Natural Gas Volume (bcf)	1,173.40	1,170.00	1,174.00	1,138.78	1,104.62	1,071.48	1,039.33	1,008.15

- Enhanced production methods have more than doubled oil production levels since 2009. The energy markets continued to experience price volatility during the last year. Spot prices for WTI fell from \$107/barrel in June 2014 to \$42/barrel in August 2015.
- In the 2008-2009 price crash, oil production in New Mexico continued to increase. Despite lower rig counts, increased productivity and technology allowed newer drilling rigs to offset the loss of less efficient equipment. The US Energy Information Administration (EIA) cautions however, that “because the base level of rig performance is so much higher now than several years ago, it is not clear that productivity gains will offset rig count declines to the same degree as in 2008-2009.”
- The drop in oil prices during the last two quarters has swayed drilling companies to evaluate their operating costs and subsequently lay down rotary drilling rigs to retain company value. The oil & gas industry and related investments, primarily in the Permian Basin in the southeast corner of the state, have had a substantial impact on drilling output. US oil production continues onward after the slowdown earlier in the year, particularly in areas of shale plays. Global oil prices are supported by continued demand growth and excess supplies.
- Nationally, gas production has dropped over prior years. Declines in drilling for shale gas combined with regional impacts of increased rig activity for oil drilling and near record low pricing have contributed to deemphasizing natural gas.
- In early 2015, US oil stockpiles grew to unprecedented levels, peaking at 491 million barrels in April (this figure excludes the strategic petroleum reserve). The massive buildup of oil inventory created an overhang of excess supply that will slow any price recovery.

Figure: US Excess Oil Supply in Storage (thousands of barrels)



Revenue Highlights.

- Gross Receipts Tax. The Taxation and Revenue Department (TRD) shifted its staffing resources and data analysis capabilities, resulting in increased audit efforts in 2014 and 2015. Partially the result of increased taxpayer compliance, revenue from the gross receipts tax increased 6.9 percent in FY15 over FY14. As observed in FY15, the level of deductions taken against GRT liabilities has decreased in the last few quarters of data – a possible indication of audit results. A large upside risk to the consensus forecast exists if this recent increase in taxpayer compliance is sustained into the out years.
- Personal Income Tax. FY15 saw diminished activity in personal income tax (PIT) revenue from oil and gas withholding revenue. Preliminarily, as oil prices begin to stabilize at lower levels than previously anticipated, PIT revenue is expected to grow 2.9 percent in FY16, and 4.4 percent in FY17.
- Corporate Income Tax. House Bill 641 (Laws 2013, Ch. 160) made several changes to the corporate income tax code. The fiscal impact report (FIR) for HB 641 initially estimated that the changes would result in a revenue loss of \$7.2 million in FY14. However, actual CIT revenue in that fiscal year missed its forecast by more than the estimated \$7.2 million cost. In FY14, net CIT revenue was subject to a six-month forecast error of \$82.2 million (41.8 percent), and an 18-month error of \$143.4 million (72.2 percent).

Due to strengthening economic fundamentals in the state during FY14, the source of the error remains unclear. Analyzing actual FY14 taxpayer data would provide a more accurate estimate of the bill's impact on CIT collections; however, TRD notes it will not have this data until 2016. Due to confidentiality restrictions, access to taxpayer-level data and further analysis is limited to TRD. Because of the volatile and nebulous nature of CIT collections, it is not yet possible to disaggregate this error and attribute it to either forecasting error or to an error in the estimated revenue impact of HB 641.

- Interest Earnings. The Federal Reserve is expected to raise short-term interest rates by the end of 2015. Earnings on state balances held at the State Treasurer's Office are directly related to the yield on short-term, fixed-income instruments. Revenues associated with the permanent funds will see growth in FY15. Distributions are based on a rolling average of the last 5 calendar years' market value for the respective funds.

Pursuant to the Constitution of New Mexico, the rate of distribution from the Land Grant Permanent Fund (LGPf) to beneficiaries is scheduled to decrease from 5.5 percent of the fund's market value in FY16 to 5.0 percent in FY17. Despite the rate change, revenues associated with the permanent funds will see an increase in FY17. The distribution is projected to rise as the low market-value years are replaced by higher market-value years in the calculation of the five-year average.

- Insurance Premiums Tax. The enrollment take-up rate of Medicaid and the ACA exchange remains uncertain. Various estimates exist for exchange enrollment, and the newness of the program means little information is available. The rate at which members of the New Mexico Medical Insurance Pool transition to either Medicaid or the exchange has thus far been rather high. The resulting uncertainty in NMMIP assessments to insurers affects general fund revenue through the NMMIP credit. Revenue estimators will meet with the staff of the Office of the Superintendent of Insurance and NMMIP to consider more timely data.
- Federal Mineral Leasing. The shares of FML are growing steadily. A shift towards drilling on federal lands has expanded dramatically. Over the last two years, over 50 percent of drilling activity has shifted to federal land. As oil companies complete their price and volume valuation activity for FY15, a more complete picture of leasing and royalty activity will come to light towards the end of this year. The oil and gas sector has experienced turbulence in pricing over the last two years, enhanced drilling techniques

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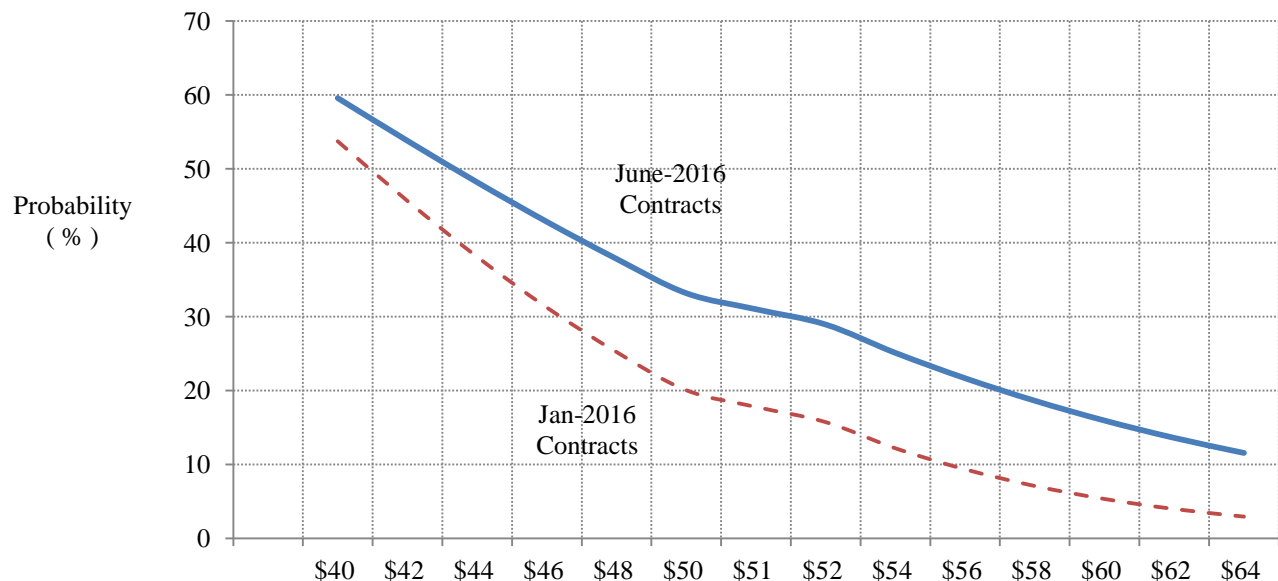
have continued, allowing the oil supply to reach record levels. This combination contributes to a forecast presenting a slowdown in FML activities in FY16 and a slow stabilization in FY17 and beyond.

Revenue Risks.

- **Oil Price Risk.** There is a 50-50 chance that FY16 recurring revenue will decrease by approximately \$120 million due to oil price risk alone. The state's sensitivity to oil has dramatically increased in recent years, magnified due to the record levels of production. A \$1 change in the price of oil produces a \$10 million change in general fund revenue. Given the latest futures prices in the market (see Figure 4, below) there is a 50 percent probability that oil will be priced at \$43/bbl by the end of fiscal year 2016. This price is \$8 below CREG expectations and represents a loss of \$120 million in FY16 recurring revenue¹.

Contracts are a form of insurance against commodity price risk. The cost to enter into a contract, combined with other known historical variables, indicates what the global market expects oil prices to be at the time that a contract expires.

Figure 4: Probability That New Mexico Oil Will Exceed a Certain Price by a Certain Date



Notes: Probabilities are implied from contract prices, from LFC economist calculations of Black-Scholes options pricing model for commodities. Oil prices in the figure above are for New Mexico crude oil, discounted \$4 / bbl from WTI. Market trading data are from NYMEX, ending August 14, 2015. Reference: EIA Short-term Energy Outlook Supplement, October 2009, “*Energy Price Volatility and Forecast Uncertainty.*”

- As the largest consumer of raw industrial materials, weakening demand due to slowing economic growth in China will worsen the global oversupply and further depress oil prices. In August 2015, the People's Bank of China devalued its currency against the US dollar, indicating that the country's GDP growth, now at a 5-year low, may worsen.
- Contingent on the Joint Comprehensive Plan of Action (JCPOA), the US Energy Information Administration reports that increased Iranian oil exports may contribute to further price declines in the

¹ This figure could increase. CREG estimates FY16 oil at approximately \$51/bbl. Because this is an average taken over the fiscal year, prices would actually need to be higher than \$51/bbl by June 2016 to make up for the lower prices at the beginning of the year. The longer prices remain below \$51/bbl, the less likely the CREG target will be met.

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global market. Although the JCPOA was announced in July between several world powers and Iran, the timing and volume of oil exports remains uncertain.

- *Tax Expenditures and Tax Law Changes.* The potential for increases in the cost of tax credits is a risk to state revenues. In recent years, several tax expenditures for economic development have had a larger fiscal impact than initially estimated, contributing to revenue estimating error. In some cases the revenue impacts have significantly exceeded initial estimates, requiring changes in statute to curb the impact.

To illustrate, the table below highlights the revenue impacts of the corporate income tax rate and income apportioning changes, as well as several tax expenditures either enacted or amended since the 2012 legislative session. Based on claims data, analysts assumed that the impacts of the high-wage jobs tax credit (HWJTC) and the construction GRT deduction are already reflected in the tax base and, therefore, did not make additional adjustments to the revenue forecast based on these tax expenditures. HWJTC claims were \$21.4 million and \$48.8 million in FY13 and FY14, respectively. During those years the \$50 million Film Production Tax Credit cap was reached.

Selected Tax Law Changes / Tax Expenditures	FY16	FY17	FY18	FY19
Rate Reduction and Single-Sales Apportioning (CIT)	-64.4	-95.5	-124.5	-139.5
Mandatory Combined Reporting (CIT)	5.8	4.2	3.5	3.5
High-Wage Jobs Tax Credit	-15.0	-15.0	-15.0	-15.0
Manufacturing Deduction (GRT)	-20.0	-27.2	-37.0	-37.0
Construction Deduction (GRT)	-15.6	-13.0	-13.7	-13.7
Film Production Tax Credit (CIT)	-50.0	-50.0	-50.0	-50.0
Locomotive Fuel Tax Exemption (Comp)	-3.0	-3.1	-3.1	-3.2
Total:	-\$162.2	-\$199.7	-\$239.7	-\$254.8

General Fund Recurring Appropriation Outlook The table (next page) shows the FY16-FY20 General Fund Recurring Appropriation Outlook, which compares the consensus revenue estimate with expenditure growth based on conservative assumptions. The overall appropriation growth is estimated between 4.7 percent in FY17 and 2.6 percent and 3.2 percent thereafter. This data reflects recurring appropriations only, and does not make assumptions concerning nonrecurring appropriations or legislative changes affecting revenues.

The general fund recurring appropriation outlook table shows recurring appropriation assumptions by major budget category for FY17. The scenario of total spending is up 4.7 percent from FY16 levels. For public schools the projection includes growth of about 3 percent; higher education, public safety, and all other government are assumed to grow at 2 percent. Medicaid growth includes a 4 percent base budget increase, an additional \$43.4 million for Medicaid expansion costs, and replacing a \$25 million nonrecurring FY15 supplemental appropriation with recurring appropriations. Other fund balances in need of replacing with general fund include \$20.8 million tobacco settlement revenue in Medicaid, \$2.5 million for State Parks and \$2.5 million the State Engineer. Finally, a larger than average increase is projected for the Public Defender Department and the final increment of the State Police pay plan fix is projected to cost \$3 million. These increased recurring costs total about \$290.2 million.

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To reiterate, some of these expenditure assumptions are conservative. Additional pressures on spending (not including the spending scenario) include the outcome of the lawsuit on the adequacy of funding for public schools, public employee compensation increases, and whether to replace \$20.8 million of tobacco settlement revenue in the Medicaid budget.

FY16 - FY20 General Fund Recurring Appropriation Outlook

(in millions of dollars)

	GAA FY16	Outlook FY17	Outlook FY18	Outlook FY19	Outlook FY20
August 2015 Consensus - Recurring Revenue	\$ 6,247.7	\$ 6,528.0	\$ 6,832.7	\$ 7,128.1	\$ 7,395.3
Total Recurring Revenue	\$ 6,247.7	\$ 6,528.0	\$ 6,832.7	\$ 7,128.1	\$ 7,395.3
Yr/Yr percent change	0.4%	4.5%	4.7%	4.3%	3.7%
<u>Recurring Appropriations:</u>					
Public Education ¹	\$ 2,796.7	\$ 2,913.6	\$ 2,889.6	\$ 2,976.3	\$ 3,065.6
Higher Education ²	\$ 855.3	\$ 882.5	\$ 851.0	\$ 868.0	\$ 885.4
Public Safety ²	\$ 401.8	\$ 414.6	\$ 407.1	\$ 415.3	\$ 423.6
Medicaid ³	\$ 940.7	\$ 989.4	\$ 1,090.1	\$ 1,133.7	\$ 1,179.0
Medicaid Expansion Spending		\$ 43.4	\$ 99.9	\$ 122.6	\$ 165.0
Other Health & Human Services ¹		\$ -	\$ 170.4	\$ 175.6	\$ 180.8
All Other Government ²	\$ 1,206.6	\$ 1,244.9	\$ 1,164.8	\$ 1,188.1	\$ 1,211.8
Subtotal of Recurring Appropriations	\$ 6,235.3	\$ 6,488.5	\$ 6,672.9	\$ 6,879.5	\$ 7,111.2
Yr/Yr percent change	1.1%	4.1%	4.4%	3.1%	3.4%
<u>Adjustment Scenario:</u>					
Medicaid - Supplemental		\$ 25.0			
Replace fund balances with general fund:					
- State Parks		\$ 2.5	\$ 5.0	\$ 5.0	
- Irrigation Works Construction Fund		\$ 2.5	\$ 2.5	\$ 2.5	
Public Defender		\$ 4.0	\$ 8.0	\$ 8.0	\$ 8.0
State Police Salaries		\$ 3.0	\$ 6.0	\$ 6.0	\$ 6.0
Subtotal of Adjustment Scenario	\$ -	\$ 37.0	\$ 21.5	\$ 21.5	\$ 14.0
Total Recurring Approp. + Add. Funding	\$ 6,235.3	\$ 6,525.5	\$ 6,694.4	\$ 6,901.0	\$ 7,125.2
Yr/Yr percent change	1.1%	4.7%	2.6%	3.1%	3.2%
Surplus/(Deficit)	\$ 12.4	\$ 2.5	\$ 138.3	\$ 227.1	\$ 270.1

Notes:

- (1) Public education, and other health & human services are assumed to grow at 3 percent in FY17 - FY20.
- (2) Higher education, public safety, and all other government are assumed to grow at 2 percent in FY17 - FY20.
- (3) Medicaid spending growth in FY17 - FY20 is estimated at 4 percent.

General Fund Consensus Revenue Estimate August 2015

	FY15					FY16					FY17				
	Feb 2015 Est.	Aug 2015 Est.	Change from Prior	% Change from FY14	\$ Change from FY14	Feb 2015 Est. Adj. for Legis	Aug 2015 Est.	Change from Prior	% Change from FY15	\$ Change from FY15	Feb 2015 Est. Adj. for Legis	Aug 2015 Est.	Change from Prior	% Change from FY16	\$ Change from FY16
Gross Receipts Tax	2,129.0	2,129.0	-	6.9%	137.0	2,233.9	2,233.9	-	4.9%	104.9	2,331.7	2,331.7	-	4.4%	97.8
Compensating Tax	75.0	82.0	7.0	4.6%	3.6	68.9	68.6	(0.3)	-16.4%	(13.5)	74.4	68.0	(6.4)	-0.8%	(0.5)
TOTAL GENERAL SALES	2,204.0	2,211.0	7.0	6.8%	140.6	2,302.8	2,302.5	(0.3)	4.1%	91.5	2,406.1	2,399.7	(6.4)	4.2%	97.2
Tobacco Taxes	79.0	81.9	2.9	4.4%	3.4	78.1	82.0	3.9	0.1%	0.1	77.4	81.0	3.6	-1.2%	(1.0)
Liquor Excise	26.7	26.7	-	1.3%	0.3	6.7	6.7	-	-74.9%	(20.0)	6.9	6.9	-	3.0%	0.2
Insurance Taxes	140.0	140.0	-	21.7%	24.9	183.0	183.0	-	30.7%	43.0	213.0	213.0	-	16.4%	30.0
Fire Protection Fund Reversion	14.9	15.7	0.8	-2.6%	(0.4)	13.8	14.0	0.2	-10.6%	(1.7)	12.8	12.8	(0.0)	-8.7%	(1.2)
Motor Vehicle Excise	143.3	143.0	(0.3)	7.3%	9.7	146.6	146.0	(0.6)	2.1%	3.0	149.9	150.0	0.1	2.7%	4.0
Gaming Excise	67.9	70.1	2.2	5.5%	3.6	68.1	68.9	0.8	-1.7%	(1.2)	68.3	67.7	(0.6)	-1.7%	(1.2)
Leased Vehicle Surcharge	5.2	5.2	-	-0.1%	(0.0)	5.2	5.2	-	0.0%	-	5.2	5.2	-	0.0%	-
Other	1.1	1.0	(0.0)	-64.9%	(1.9)	2.4	3.0	0.6	190.3%	2.0	2.4	2.2	(0.2)	-26.7%	(0.8)
TOTAL SELECTIVE SALES	478.1	483.6	5.5	9.0%	39.7	503.9	508.8	4.9	5.2%	25.2	535.9	538.8	2.9	5.9%	30.0
Personal Income Tax	1,315.0	1,340.0	25.0	6.8%	85.1	1,359.6	1,379.0	19.5	2.9%	39.0	1,404.2	1,440.0	35.8	4.4%	61.0
Corporate Income Tax	230.0	255.0	25.0	29.6%	58.2	224.7	224.7	-	-11.9%	(30.3)	234.7	234.7	-	4.4%	10.0
TOTAL INCOME TAXES	1,545.0	1,595.0	50.0	9.9%	143.3	1,584.2	1,603.7	19.5	0.5%	8.7	1,638.8	1,674.7	35.8	4.4%	71.0
Oil and Gas School Tax	370.0	370.7	0.7	-26.0%	(130.0)	347.0	331.8	(15.2)	-10.5%	(38.9)	387.0	365.1	(21.9)	10.0%	33.3
Oil Conservation Tax	20.0	19.6	(0.4)	-28.0%	(7.6)	19.0	17.6	(1.4)	-10.1%	(2.0)	21.0	19.4	(1.6)	9.8%	1.7
Resources Excise Tax	12.7	13.0	0.3	-0.1%	(0.0)	12.7	13.0	0.3	0.0%	-	12.7	13.0	0.3	0.0%	-
Natural Gas Processors Tax	19.0	19.0	-	17.3%	2.8	20.0	18.7	(1.3)	-1.6%	(0.3)	16.0	14.2	(1.8)	-24.1%	(4.5)
TOTAL SEVERANCE TAXES	421.7	422.3	0.6	-24.2%	(134.8)	398.7	381.1	(17.6)	-9.8%	(41.2)	436.7	411.7	(25.0)	8.0%	30.6
LICENSE FEES	51.6	55.0	3.4	6.5%	3.3	51.8	53.5	1.7	-2.8%	(1.5)	51.9	54.6	2.7	2.2%	1.2
LGPf Interest	496.2	502.8	6.7	11.9%	53.4	553.2	553.2	-	10.0%	50.4	547.2	547.0	(0.2)	-1.1%	(6.2)
STO Interest	15.0	16.8	1.8	-11.4%	(2.2)	35.0	29.9	(5.1)	77.6%	13.1	65.0	60.8	(4.2)	103.3%	30.9
STPF Interest	182.7	182.7	-	7.2%	12.2	193.6	193.5	(0.1)	5.9%	10.8	203.5	203.5	0.1	5.2%	10.0
TOTAL INTEREST	693.9	702.3	8.5	9.9%	63.5	781.8	776.6	(5.2)	10.6%	74.3	815.7	811.3	(4.4)	4.5%	34.7
Federal Mineral Leasing	510.0	541.9	31.9	-4.9%	(28.0)	420.0	420.0	-	-22.5%	(121.9)	445.0	430.0	(15.0)	2.4%	10.0
State Land Office	40.9	42.2	1.3	-11.1%	(5.3)	39.7	39.3	(0.4)	-6.8%	(2.9)	39.7	41.4	1.7	5.3%	2.1
TOTAL RENTS & ROYALTIES	550.9	584.1	33.2	-5.4%	(33.2)	459.7	459.3	(0.4)	-21.4%	(124.8)	484.7	471.4	(13.3)	2.6%	12.1
TRIBAL REVENUE SHARING	70.0	65.0	(5.0)	-3.8%	(2.6)	63.3	64.3	1.0	-1.1%	(0.7)	65.6	65.8	0.2	2.3%	1.5
MISCELLANEOUS RECEIPTS	46.6	52.7	6.1	17.1%	7.7	49.9	52.9	3.0	0.4%	0.2	52.2	55.0	2.9	3.9%	2.1
REVERSIONS	53.0	55.7	2.7	-42.3%	(40.8)	45.0	45.0	-	-19.2%	(10.7)	40.0	45.0	5.0	0.0%	-
TOTAL RECURRING	6,114.7	6,226.8	112.1	3.1%	186.7	6,241.2	6,247.7	6.5	0.3%	21.0	6,527.6	6,528.0	0.5	4.5%	280.3
TOTAL NON-RECURRING	(0.5)	25.1	24.6	na	24.7	5.5	5.5	-	-78.1%	(19.6)	-	-	-	-100.0%	(5.5)
GRAND TOTAL	6,114.2	6,251.9	137.7	3.5%	211.4	6,246.7	6,253.2	6.5	0.0%	1.4	6,527.6	6,528.0	0.5	4.4%	274.8

General Fund Consensus Revenue Estimate August 2015

	FY18					FY19					FY20		
	Feb 2015 Est. Adj. for Legis	Aug 2015 Est.	Change from Prior	% Change from FY17	\$ Change from FY17	Feb 2015 Est. Adj. for Legis	Aug 2015 Est.	Change from Prior	% Change from FY18	\$ Change from FY18	Aug 2015 Est.	% Change from FY19	\$ Change from FY19
Gross Receipts Tax	2,424.5	2,424.5	-	4.0%	92.8	2,525.8	2,525.8	-	4.2%	101.4	2,626.9	4.0%	101.1
Compensating Tax	73.6	69.4	(4.2)	2.1%	1.4	72.1	72.2	0.1	4.0%	2.8	71.3	-1.2%	(0.9)
TOTAL GENERAL SALES	2,498.1	2,493.9	(4.2)	3.9%	94.2	2,597.9	2,598.0	0.1	4.2%	104.2	2,698.2	3.9%	100.2
Tobacco Taxes	76.4	80.0	3.6	-1.2%	(1.0)	75.7	79.0	3.3	-1.3%	(1.0)	78.1	-1.1%	(0.9)
Liquor Excise	26.1	26.1	-	278.3%	19.2	28.9	28.9	-	10.7%	2.8	27.7	-4.2%	(1.2)
Insurance Taxes	226.0	226.0	-	6.1%	13.0	237.0	237.0	-	4.9%	11.0	247.2	4.3%	10.2
Fire Protection Fund Reversion	11.9	11.5	(0.4)	-9.9%	(1.3)	10.7	10.2	(0.5)	-11.8%	(1.4)	8.6	-15.1%	(1.5)
Motor Vehicle Excise	152.9	155.0	2.1	3.3%	5.0	156.0	158.0	2.0	1.9%	3.0	161.0	1.9%	3.0
Gaming Excise	68.5	66.5	(2.0)	-1.8%	(1.2)	68.8	65.4	(3.4)	-1.7%	(1.1)	65.3	-0.2%	(0.1)
Leased Vehicle Surcharge	5.2	5.2	-	0.0%	-	5.2	5.2	-	0.0%	-	5.2	0.0%	-
Other	2.4	2.2	(0.2)	0.0%	-	2.4	2.2	(0.2)	0.0%	-	2.2	0.0%	-
TOTAL SELECTIVE SALES	569.4	572.5	3.1	6.3%	33.7	584.7	585.9	1.2	2.3%	13.3	595.3	1.6%	9.5
Personal Income Tax	1,451.8	1,511.0	59.3	4.9%	71.0	1,503.0	1,580.0	77.0	4.6%	69.0	1,641.0	3.9%	61.0
Corporate Income Tax	194.7	194.7	-	-17.0%	(40.0)	174.7	174.7	-	-10.3%	(20.0)	183.4	5.0%	8.7
TOTAL INCOME TAXES	1,646.4	1,705.7	59.3	1.9%	31.0	1,677.7	1,754.7	77.0	2.9%	49.0	1,824.4	4.0%	69.7
Oil and Gas School Tax	412.0	394.6	(17.4)	8.1%	29.5	437.0	418.1	(18.9)	5.9%	23.5	430.5	3.0%	12.4
Oil Conservation Tax	23.0	20.9	(2.1)	8.0%	1.5	24.0	22.2	(1.8)	6.1%	1.3	22.8	2.9%	0.6
Resources Excise Tax	12.7	13.0	0.3	0.0%	-	12.7	13.0	0.3	0.0%	-	13.0	0.0%	-
Natural Gas Processors Tax	16.0	13.9	(2.1)	-2.1%	(0.3)	15.0	13.5	(1.5)	-2.9%	(0.4)	13.1	-3.0%	(0.4)
TOTAL SEVERANCE TAXES	463.7	442.4	(21.3)	7.5%	30.8	488.7	466.8	(21.9)	5.5%	24.3	479.4	2.7%	12.6
LICENSE FEES	52.0	55.9	3.9	2.4%	1.3	52.0	57.3	5.3	2.5%	1.4	58.9	2.7%	1.6
LGPf Interest	602.0	600.3	(1.7)	9.7%	53.3	654.7	650.6	(4.1)	8.4%	50.3	693.6	6.6%	43.0
STO Interest	75.0	67.0	(8.0)	10.2%	6.2	80.0	72.3	(7.7)	7.9%	5.3	86.1	19.1%	13.8
STPF Interest	216.7	216.7	0.0	6.5%	13.2	227.4	227.7	0.3	5.1%	11.0	237.2	4.2%	9.5
TOTAL INTEREST	893.7	884.0	(9.6)	9.0%	72.7	962.1	950.6	(11.5)	7.5%	66.6	1,016.9	7.0%	66.3
Federal Mineral Leasing	480.0	466.0	(14.0)	8.4%	36.0	505.0	497.0	(8.0)	6.7%	31.0	516.0	3.8%	19.0
State Land Office	40.9	43.6	2.7	5.3%	2.2	43.1	45.1	2.0	3.4%	1.5	45.9	1.8%	0.8
TOTAL RENTS & ROYALTIES	520.9	509.6	(11.3)	8.1%	38.2	548.1	542.1	(6.0)	6.4%	32.5	561.9	3.7%	19.8
TRIBAL REVENUE SHARING	68.1	67.8	(0.3)	3.0%	2.0	76.8	71.0	(5.8)	4.7%	3.2	73.1	3.0%	2.1
MISCELLANEOUS RECEIPTS	53.0	55.9	2.9	1.5%	0.8	53.9	56.8	2.9	1.6%	0.9	57.8	1.8%	1.0
REVERSIONS	40.0	45.0	5.0	0.0%	-	40.0	45.0	5.0	0.0%	-	45.0	0.0%	-
TOTAL RECURRING	6,805.2	6,832.7	27.5	4.7%	304.7	7,081.9	7,128.1	46.2	4.3%	295.4	7,410.9	4.0%	282.8
TOTAL NON-RECURRING	-	-	-	na	-	-	-	-	na	-	-	na	-
GRAND TOTAL	6,805.2	6,832.7	27.5	4.7%	304.7	7,081.9	7,128.1	46.2	4.3%	295.4	7,410.9	4.0%	282.8

General Fund Financial Summary: August 2015 Consensus Revenue Estimate

(in millions of dollars)

August 25, 2015	Preliminary FY2015	Estimated FY2016	Estimated FY2017
<u>APPROPRIATION ACCOUNT</u>			
REVENUE			
Recurring Revenue			
February 2015 Consensus Forecast - Adj for Legislation	\$ 6,114.7	\$ 6,241.2	\$ 6,527.6
August 2015 Consensus Revenue Update	\$ 112.0	\$ 6.6	\$ 0.4
Total Recurring Revenue	\$ 6,226.7	\$ 6,247.8	\$ 6,528.0
Nonrecurring Revenue			
February 2015 Consensus Forecast - Adj for Legislation	\$ (0.5)	\$ 5.5	\$ -
August 2015 Consensus Revenue Update (1)	\$ 25.1	\$ -	\$ -
Total Non-Recurring Revenue	\$ 24.6	\$ 5.5	\$ -
TOTAL REVENUE	\$ 6,251.3	\$ 6,253.3	\$ 6,528.0
APPROPRIATIONS			
Recurring Appropriations			New Money in FY17 is \$293M (4.7%)
General Appropriation	\$ 6,151.2	\$ 6,235.3	
2015 Legislative Session Costs - Feed Bill	\$ 10.1		
2015 Special Session - Supplementals	\$ 4.3		
Total Recurring Appropriations	\$ 6,165.6	\$ 6,235.3	
Nonrecurring Appropriations			
Prior Year Appropriations	\$ 13.4	\$ -	
2014 Audit Adjustment	\$ 3.0	\$ -	
2015 Deficiencies, Supplementals, Specials	\$ 81.4	\$ -	
2015 IT Appropriations	\$ 13.8	\$ -	
2015 Special Session - Capital Outlay		\$ 30.0	
Total Nonrecurring Appropriations	\$ 111.5	\$ 30.0	
TOTAL APPROPRIATIONS	\$ 6,277.1	\$ 6,265.3	
Transfer to (from) Reserves	\$ (25.8)	\$ (12.0)	
GENERAL FUND RESERVES			
Beginning Balances	\$ 638.0	\$ 632.5	
Transfers from (to) Appropriations Account	\$ (25.8)	\$ (12.0)	
Revenue and Reversions	\$ 72.3	\$ 71.8	
Appropriations, Expenditures and Transfers Out	\$ (51.9)	\$ (77.0)	
Ending Balances	\$ 632.5	\$ 615.3	
<i>Reserves as a Percent of Recurring Appropriations</i>	<i>10.3%</i>	<i>9.9%</i>	

Notes:

(1) - The August 2015 revenue update includes \$20 million of nonrecurring revenue from the Office of the Superintendent of Insurance (OSI) audit findings. The OSI audits relate to over-issued medicinal insurance (NMMIP) credits.

General Fund Financial Summary: August 2015 Consensus Revenue Estimate

RESERVE DETAIL

(in millions of dollars)

	Preliminary FY2015	Estimated FY2016	Estimated FY2017
OPERATING RESERVE			
Beginning Balance	\$ 274.6	\$ 232.2	
BOF Emergency Appropriations/Reversions	\$ (1.5)		
Transfers from/to Appropriation Account	\$ (25.8)	\$ (12.0)	
Transfer to ACF/Other Appropriations	\$ (15.0)	\$ (20.0)	
Ending Balance	\$ 232.2	\$ 200.2	
APPROPRIATION CONTINGENCY FUND			
Beginning Balance	\$ 18.4	\$ 28.0	
Disaster Allotments	\$ (12.6)	\$ (22.0)	\$ (22.0)
Other Appropriations	\$ (0.5)		
Transfers In	\$ 15.0	\$ 20.0	
Revenue and Reversions	\$ 7.7		
Ending Balance	\$ 28.0	\$ 26.0	
Education Lock Box			
Beginning Balance	\$ 3.0	\$ (0.1)	
Appropriations	\$ (3.1)	\$ -	
Transfers In	\$ -	\$ -	
Ending Balance	\$ (0.1)	\$ (0.1)	
Total of Appropriation Contingency Fund	\$ 27.9	\$ 25.9	
STATE SUPPORT FUND			
Beginning Balance	\$ 1.0	\$ 1.0	\$ 1.0
Revenues	\$ -	\$ -	
Appropriations	\$ -	\$ -	
Ending Balance	\$ 1.0	\$ 1.0	\$ 1.0
TOBACCO PERMANENT FUND			
Beginning Balance	\$ 193.5	\$ 223.8	\$ 240.6
Transfers In	\$ 35.0	\$ 35.0	\$ 35.0
Appropriation to Tobacco Settlement Program Fund	\$ (19.2)	\$ (17.5)	\$ (17.5)
Gains/Losses	\$ 14.5	\$ 16.8	\$ 18.0
Additional Transfers from TSPF (4)	\$ -	\$ (17.5)	\$ -
Ending Balance	\$ 223.8	\$ 240.6	\$ 276.2
TAX STABILIZATION RESERVE			
Beginning Balance	\$ 147.5	\$ 147.5	\$ 147.5
Transfers In	\$ -	\$ -	\$ -
Ending Balance	\$ 147.5	\$ 147.5	\$ 147.5
GENERAL FUND ENDING BALANCES	\$ 632.4	\$ 615.2	
<i>Percent of Recurring Appropriations</i>	<i>10.3%</i>	<i>9.9%</i>	

Notes:

U.S. and New Mexico Economic Indicators

		FY15		FY16		FY17		FY18		FY19		FY20
		Feb15 Forecast	Aug15 Forecast	Feb15 Forecast	Aug15 Forecast	Feb15 Forecast	Aug15 Forecast	Feb15 Forecast	Aug15 Forecast	Feb15 Forecast	Aug15 Forecast	Aug15 Forecast
National Economic Indicators												
GI	US Real GDP Growth (annual avg., % YOY)*	3.1	2.6	2.6	2.4	2.9	3.0	2.4	2.5	2.6	2.5	2.5
Moody's	US Real GDP Growth (annual avg., % YOY)*	3.2	2.6	3.7	2.6	3.2	3.0	2.7	2.8	2.1	2.5	1.9
GI	US Inflation Rate (CPI-U, annual avg., % YOY)**	0.6	0.7	1.5	1.0	2.3	2.1	2.4	2.5	2.5	2.5	2.2
Moody's	US Inflation Rate (CPI-U, annual avg., % YOY)**	1.2	0.7	1.9	1.7	2.7	2.7	2.9	2.8	2.8	2.8	2.5
GI	Federal Funds Rate (%)	0.15	0.11	0.91	0.66	2.46	1.81	3.73	3.35	3.75	3.50	3.50
Moody's	Federal Funds Rate (%)	0.11	0.11	1.05	0.81	2.96	2.58	3.84	3.61	3.93	3.82	3.64
New Mexico Labor Market and Income Data												
BBER	NM Non-Agricultural Employment Growth	0.9	1.2	1.2	1.3	1.4	1.3	1.1	1.4	1.0	1.3	1.0
Moody's	NM Non-Agricultural Employment Growth	1.8	1.4	1.7	1.6	1.4	2.4	1.0	2.0	0.9	1.3	0.6
BBER	NM Nominal Personal Income Growth (%)***	3.5	4.8	3.9	4.6	4.5	4.9	4.8	5.0	4.5	4.9	4.8
Moody's	NM Nominal Personal Income Growth (%)***	3.6	4.8	3.0	3.5	3.9	3.5	4.1	4.1	4.2	4.3	3.9
BBER	NM Total Wages & Salaries Growth (%)	3.6	4.5	3.9	3.8	4.4	4.1	4.1	4.2	4.1	4.3	4.2
Moody's	NM Total Wages & Salaries Growth (%)	3.3	4.5	4.7	3.1	4.9	3.8	4.7	4.4	5.0	4.6	3.7
BBER	NM Private Wages & Salaries Growth (%)	4.4	5.7	4.5	4.4	4.7	4.9	4.4	4.7	4.4	4.7	4.5
BBER	NM Real Gross State Product (% YOY)	2.6	2.2	2.6	2.2	2.8	2.9	2.5	2.5	2.6	2.5	2.4
Moody's	NM Real Gross State Product (% YOY)	1.3	1.5	2.5	2.2	2.2	2.7	1.7	2.3	1.6	2.2	1.9
CREG	NM Oil Price (\$/barrel)	\$61.00	\$61.72	\$56.00	\$51.54	\$65.00	\$56.52	\$70.00	\$61.23	\$75.00	\$66.10	\$68.06
CREG	NM Taxable Oil Volumes (million barrels)	125.0	137.2	128.0	145.0	131.0	149.5	133.0	153.0	135.0	155.0	156.0
	NM Taxable Oil Volumes (%YOY growth)	10.2%	21.0%	2.4%	5.7%	2.3%	3.1%	1.5%	2.3%	1.5%	1.3%	0.6%
CREG	NM Gas Price (\$ per thousand cubic feet)****	\$4.30	\$3.80	\$4.10	\$3.60	\$4.30	\$3.90	\$4.50	\$4.15	\$4.70	\$4.25	\$4.45
CREG	NM Taxable Gas Volumes (billion cubic feet)	1,181	1,174	1,150	1,139	1,118	1,105	1,088	1,071	1,052	1,039	1,008
	NM Taxable Gas Volumes (%YOY growth)	-0.5%	-1.1%	-2.6%	-3.0%	-2.8%	-3.0%	-2.7%	-3.1%	-3.3%	-3.0%	-3.0%

LFC, TRD Notes

* Real GDP is BEA chained 2009 dollars, billions, annual rate

** CPI is all urban, BLS 1982-84=1.00 base

***Nominal Personal Income growth rates are for the calendar year in which each fiscal year begins

Sources: BBER - April 2015 FOR-UNM baseline. Global Insight - July 2015 baseline.

DFA Notes

****The gas prices are estimated using a formula of NYMEX, EIA, Moody's Analytics and I.H.S. Global Insight futures and forecast prices as well as a premium for natural gas based on the oil price forecast.

Sources: Moody's Analytics, baseline forecast for January 2015 & July 2015 national and New Mexico data.